CHAPTER TWO

THE ROLE OF THE PRIVATE SECTOR IN AFRICA'S DEVELOPMENT

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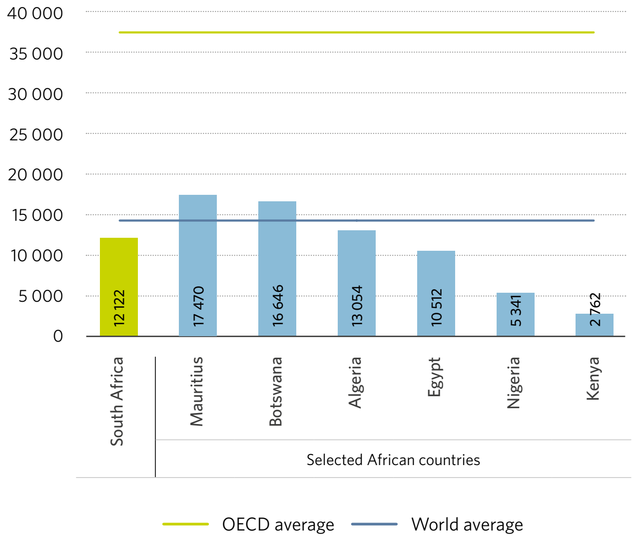
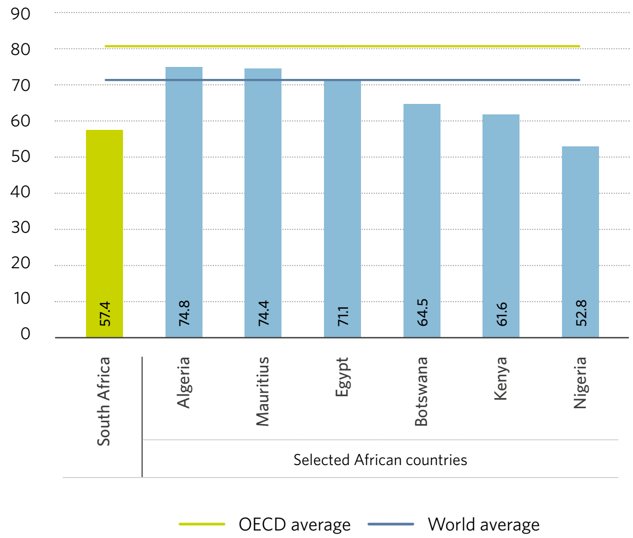
Compared to other African countries that have strong and/or large economies, South Africa performs relatively poorly in terms of the Human Development Index (HDI), which is attributable to its low score for health. Botswana, is relatively high-scoring in terms of non-health HDI variables, but shares with South Africa a similarly high prevalence of HIV/Aids. South Africa performs a year better in terms of mean years of schooling than its closest rival on the continent, Botswana.

Gross national income per capita, 2014
(US$ 2011 constant, PPP adjusted)



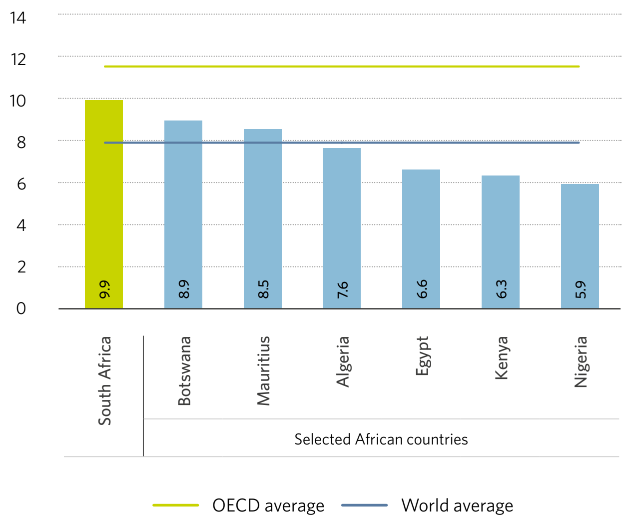
Source: UNDP Human Development Indicators Database

Life expectancy at birth (49.0–84.0), 2014
(years)



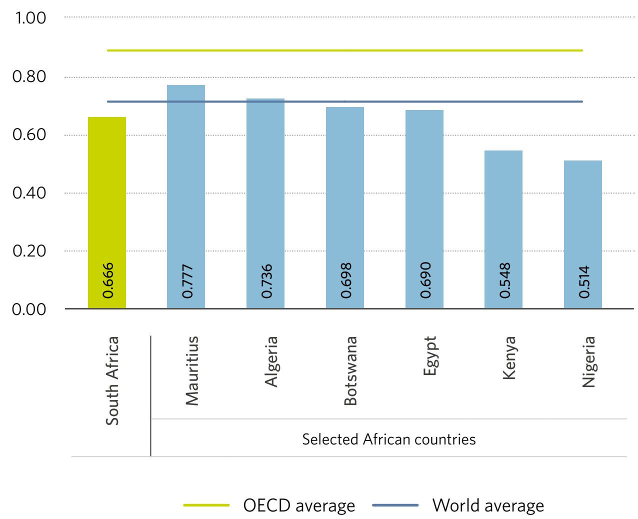
Source: UNDP Human Development Indicators Database

Mean years of schooling, 2014
(years)



Source: UNDP Human Development Indicators Database

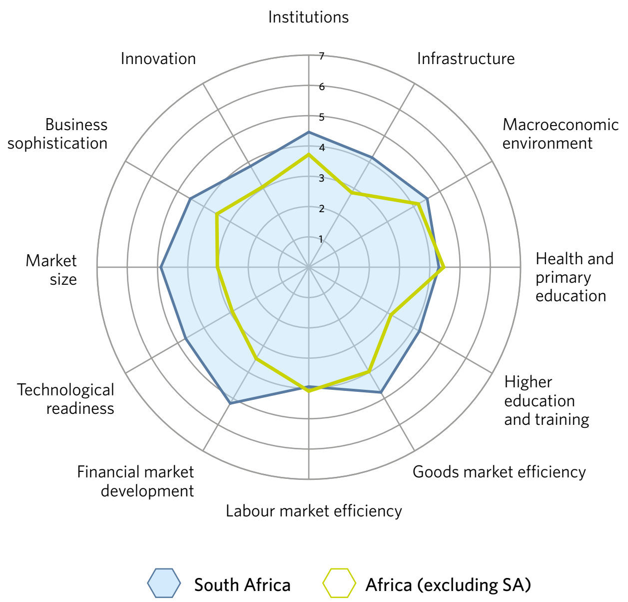
Human Development Index, 2014



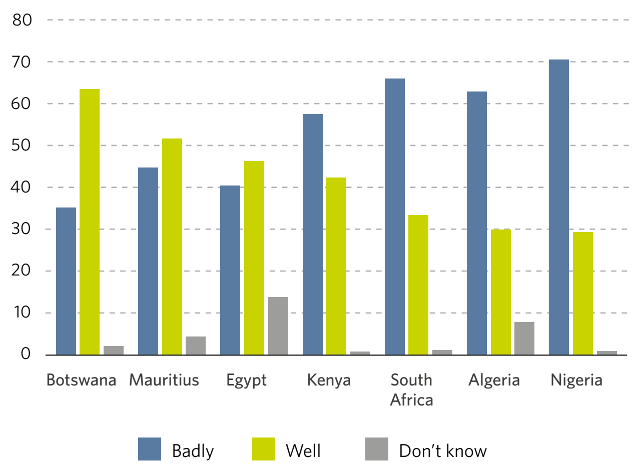
Source: UNDP Human Development Indicators Database

Apart from again highlighting South Africa's challenges in terms of health, primary education and labour market efficiency, the comparison of South African and general continental competitive indicators illuminates the continent's challenges in terms of infrastructure, higher education and training and technological readiness. From the Afrobarometer Opinion Survey data, it is also clear that South Africans expect more from their government in terms of its handling of the economy. Sentiments of South Africans in this regard are particularly negative compared to their continental peers, with 65.5 per cent of its citizens indicating that the South African government is handling the economy 'fairly badly' or 'very badly'.

WEF Global Competitiveness Indicators, 2016/2017



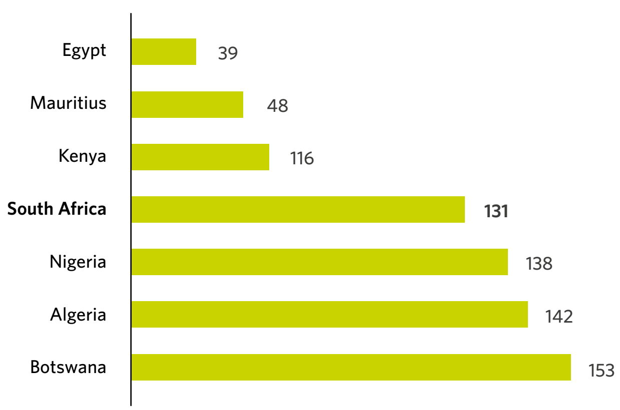
Perceptions of government's handling of the economy, 2014/2015 (percentage)



Source: Afrobarometer 2014/2015
"Question asked: '"How well or badly would you say the current government is handling the following matters, or haven't you heard enough to say?"'

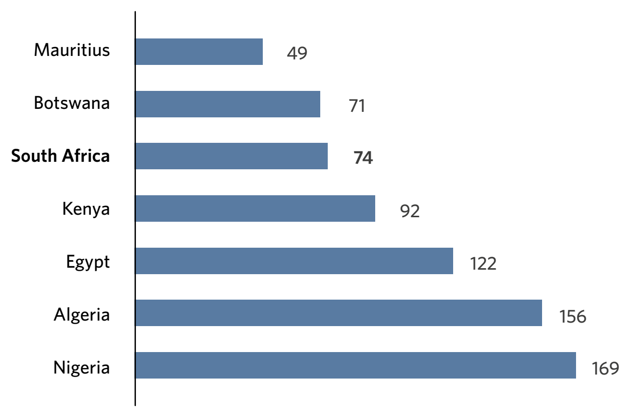
Source: Own calculations from WEF Global Competitiveness Indicators, 2016/2017
Average calculated for the following African countries (those for which data are available): Algeria, Benin, Botswana, Burundi, Cameroon, Cape Verde, Chad, Democratic Republic of Congo, Côte d'Ivoire, Egypt, Ethiopia, Gabon, The Gambia, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe

Global ease of starting a business ranking (out of 190), selected African countries, 2017



Source: World Bank Ease of doing business index

Global ease of doing business ranking (out of 190), selected African countries, 2017



Source: World Bank Ease of doing business index

2/ KEY INSIGHTS

- Despite an impressive growth record between 2000 and 2014, Africa's development goals and imperatives remain stubbornly elusive and still far from global averages.
- Weak policies and institutions during the high growth period of the last decade deepened inequality and failed to improve crucial areas of governance.
- While governments play a critical role in driving development, they tend to lack adequate resources, expertise and the capacity needed to tackle some of Africa's most intractable problems.
- The development debate, hinged on the ongoing tension between 'more' or 'less' aid, seems to have toned down in the light of a push from the private sector toward a more active role in driving development as a stakeholder in Africa.
- Africapitalism is an economic philosophy that stresses the role of the private sector not only as part and parcel of market-led socio-economic development in Africa, but also as a key enabler of real development outcomes for Africans by Africans.
- The somewhat unique nature of impact investing, focused as it is not just on financial returns but also on having social and environmental benefits, positions it uniquely as an incentivised model to drive development in Africa.
- The private sector has demonstrated its ability to supply new and innovative financing, technology and designs to help address Africa's inadequate infrastructure.
- The private sector's investments in areas such as education, microfinance, agriculture and infrastructure demonstrate what is possible when all stakeholders pool their resources together for a common goal and a mutually agreed (and measured) outcome.

Introduction

The hype and the hope of the so-called 'Africa Rising' narrative came to an abrupt end in 2016. Sub-Saharan Africa (SSA) experienced its slowest economic growth in more than 20 years, as the sharp fall in commodity prices impacted capital flows and development in key markets across the region. The International Monetary Fund (IMF) estimates that SSA's economy expanded by a mere 1.4 per cent in 2016. This was largely the result of lacklustre growth rates of 1.7 per cent and 0.1 per cent in Nigeria and South Africa respectively, since these continental giants account for more than 50 per cent of SSA's total gross domestic product (GDP) (IMF 2016).

Nigeria suffered the most dramatic economic setback of all. Following its recent emergence as Africa's largest economy, some claiming growth projections of between 6 and 8 per cent for the next four decades, Africa's most populous country was a casualty of an over-reliance on oil revenues, political instability and perceived insecurity following relentless attacks by Boko Haram in the north-east of the country. Oil accounts for almost 90 per cent of Nigeria's exports and contributes 75 per cent to government revenues (World Bank 2015). The drop in the oil price from US$115 a barrel in 2014 to as low as US$35 in early 2016 had a direct and devastating effect on the Nigerian economy, drying up liquidity in the market and sending the Naira (Nigeria's currency) into a tailspin.

This downturn in economic growth and lofty projection has ushered in a new debate and fresh thinking around tackling some of Africa's most pressing and protracted challenges. Despite an impressive growth record between 2000 and 2014, Africa's development goals and imperatives remain stubbornly elusive and still far from global averages. New players, innovative approaches and more effective implementation are needed now more than ever. This is critical if Africa is to meet the targets set in the new Sustainable Development Goals (SDGs) by 2030.[1]

Africa's rapidly growing population – once referred to as its 'demographic dividend' by market-hungry advisory firms – is becoming one of the continent's biggest concerns. According to the United Nations (UN) (2015), the current population of around 1.2 billion people is expected to double to 2.4 billion people by 2050. Governments will struggle increasingly to meet the needs of their burgeoning populations, especially if a low growth paradigm and slow development prevail. Moreover, the high and increasing rates of unemployment, especially among the youth, are a growing concern. In countries such as South Africa, unemployment of youth aged 15 to 24 years is upwards of 50 per cent and shows no signs of abating (World Bank 2014). It is estimated that one-third of Africa's nearly 420 million youth are unemployed (AfDB 2016).

SSA is also one of the most unequal regions on the planet, second only to Latin America (UNECA 2014). Weak policies and institutions during the high growth period of the last decade deepened inequality and failed to improve crucial areas of governance. Persistent infrastructure deficits and poor electricity access continue to hamper basic development and progress. The International Energy Agency estimates that more than 600 million Africans do not have access to electricity (IEA 2014).

Against this background, the following section tracks the origins of the private sector in Africa's development from a state-led model. The paper explores the gradual evolution of the private sector's role on the continent as it has moved beyond conventional profit-led business, tackling the continent's developmental challenges through new ideas, philosophies and approaches such as 'impact investing', 'shared value' and, ultimately, 'Africapitalism'. Examples in key sectors, including education, energy infrastructure, microfinance, agriculture and information and communication technology, illustrate innovative approaches and provide instructive lessons for development initiatives across the continent.

From state-led to private-sector-driven development

Africa's development challenges cannot be addressed by the state alone. While governments play a critical role in driving development, they tend to lack adequate resources, expertise and the capacity needed to tackle some of Africa's most intractable problems. Despite the fact that state-led development has been successful in addressing socio-economic challenges in East Asian countries like Singapore, South Korea and Taiwan, in Africa it has been less successful. The failure of the so-called developmental-state model in Africa can be attributed to a number of reasons: a lack of technical and analytical capacity, inefficient bureaucracies, ill-equipped technocrats and poorly targeted development plans, to name a few. Rwanda and Ethiopia are often espoused as recent African exemplars of the developmental state. However, it is too early to confirm such status, with both countries continuing to struggle with crippling poverty and severe underdevelopment, and still far from the level of the Asia Tigers that embraced a similar approach.

Moreover, while African governments have had better access to international capital markets in recent years, many countries have taken on unsustainable levels of debt over the past couple of decades, further weakening their capacity to confront social ills. As Reinhart and Rogoff (2009) establish, countries that are highly indebted record lower economic growth rates than those that are less indebted. They find that countries with debt-to-GDP ratios below 60 per cent can sustain economic growth at an average 3.6 per cent per year, while those with debt-to-GDP ratios above 60 per cent can manage only 2.2 per cent (Reinhart & Rogoff 2009). In addition, the flow of development aid, which many African countries have relied on for decades (although to a lesser extent in recent years), is slowing. Official development assistance to Africa was estimated to have slumped in 2015 to US$54.9 billion and was projected to decrease even further in the years to follow (AfDB, OECD & UNDP 2015). In 2017, more than two-thirds of states in SSA will receive less aid than they did in 2014 (AfDB et al. 2015). Additionally, aid's effectiveness has come under increasing scrutiny. Dambisa Moyo, one of development aid's sharpest critics, asserts that despite billions of dollars in aid flows to Africa over the last few decades, there is very little to show for it in terms of real achievement and sustained progress. Moyo (2009) blames aid for creating a culture of dependency and perpetuating corrupt regimes, and the numbers suggest that it has undercut economic development and crowded out productive capital flows. Easterly (2007) echoes these sentiments, arguing that 'development aid cannot achieve the end of poverty. Only home-grown development based on the dynamism of individuals and firms in free markets can do that.'

The development debate, hinged on the ongoing tension between 'more' or 'less' aid, seems to have toned down in the light of a push from the private sector toward a more active role in driving development as a stakeholder in Africa. This has taken on various shapes and forms in recent years, from investing in agriculture with a view to overcoming concerns around food security and generating new export revenues from agribusiness, to power generation and basic infrastructure, and service-

THE FLOW OF DEVELOPMENT AID, WHICH MANY AFRICAN COUNTRIES HAVE RELIED ON FOR DECADES, IS SLOWING.

oriented models of 'shared value' that bring knowledge and resources to better meet the continent's development challenges.

The private sector has not always been seen as an engine for development in Africa. It was only in the late-1980s and 1990s that many African governments finally implemented structural reforms to liberalise their economies and usher in privatisation. Prior to that, a large number of African countries had embarked on state-led development as the key to lifting people out of poverty. From 1960 and into the 1980s protectionist policies, trade barriers and state-led development characterised the socio-economic landscape, while the private sector was largely sidelined and viewed with great scepticism. As Baah (2003) puts it:

> *the key feature of African development initiatives in the 1960s was the important role the state played. The state allocated to itself a central role in the development process – building social and economic infrastructure and providing social services to the impoverished people of the continent.*

States also built large public sector enterprises and state agencies. As a result, 'governments became the principal actor in economic activities and the major instrument of development in many African countries' (Guseh 2001). The pursuit of state-led growth and development, as opposed to market-oriented policies, in the years following independence was partly due to the scepticism that many African countries had toward capitalism, as it was widely considered to be a form of neo-colonialism (Bartlett 1989). This would all change in the 1980s, however, following the oil crisis in the 1970s and the liberal shift in political and economic order globally from 1989.

Most public-sector enterprises also failed to keep up with national demand and global progress, and crumbled under the weight of poor technologies and the failure to innovate, as a result of little-to-no injection of the funding and knowhow that comes with private capital and open markets (AfDB 2011). With rising debts and a gross shortage of foreign capital, not to mention a dramatic slump in economic growth, countries were forced to seek help from international organisations, including the World Bank and the IMF. Donors and creditors required structural adjustments, including privatisation in the borrowing countries, as a condition for economic assistance (Baah 2003). This opened up economies to much-needed private investment and ultimately set in motion their role as players and stakeholders in development in the countries where they invested.

Advancing development through the private sector

The private sector has played an increasingly significant role in accelerating development on the continent in recent years. It has come to embrace its role in boosting African development across the board. Tony Elumelu, the Nigerian business tycoon, embodies this new commitment to development through enterprise. He has played a critical role in urging African businesses to engage actively in tackling unemployment, driving job-creation and addressing infrastructure deficits (Elumelu 2015). Elumelu coined the term 'Africapitalism', 'to define the new role of the private sector in the development of Africa, through long-term investments that create economic prosperity and social wealth' (Elumelu 2015). Indeed, Africapitalism is an economic philosophy that stresses the role of the private sector not only as part and parcel of market-led socio-economic development in Africa, but also as a key enabler of real development outcomes for Africans by Africans. It is embedded in the Ubuntu worldview and is underpinned by four principles that the private sector should embrace as they operate in Africa: creating a sense of peace, a sense of progress, a sense of parity and a sense of place (Amaeshi & Idemudia 2015). Organisations such as Good African Coffee, a company founded in Uganda in 2004, embody these basic principles of Africapitalism. The social enterprise employs a quadruple bottom-line business approach, which incorporates more than 14 000 farmers, the communities in which they live, shareholders and employees as the stakeholders. It aspires 'to be a leading African agribusiness producing quality products for the global market and using trade to bring about sustainable community development' (Good African 2017). What makes this company different is that rather than only bolstering its farmers' coffee earnings, it is also heavily involved in multiple, on-the-ground projects, such as training farmers in the best farming methods and providing small loans through microfinance schemes, all aimed at transforming the economic fortunes of entire communities in Western Uganda and truly sharing the value of coffee production in the country.

The idea of creating social wealth and tackling development challenges through the private sector is not new.

While not identical, the philosophy behind Africapitalism seems to stem from the idea of 'creating shared value' developed by Porter and Kramer (2011), who argue that firms can achieve competitive advantage while simultaneously advancing the economic and social conditions of the communities in which they operate. They contend that companies are often trapped in an old-fashioned approach to value addition, continuing to 'view value creation narrowly, optimising short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success'. According to Porter and Kramer (2011), shared value is created broadly in three ways: through reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development.

Microsoft's '4Afrika Initiative' is shared value in action, particularly in the technology space. The initiative focuses on three critical areas of development in Africa – developing local skills, enhancing access to technology platforms and fostering African innovation (Microsoft News Center 2013). Microsoft has partnered with various technology organisations in Africa to help drive its development agenda. These include companies such as Afrilabs, a pan-African organisation that brings together incubator hubs across the continent. With this partnership, Microsoft has helped to stimulate entrepreneurship as well as supporting technology start-ups across Africa by providing vital company resources. In so doing, it has helped to develop sustainable and scalable working environments across the continent (Microsoft News Center 2013). Kramer and Pfitzer (2016) contend that companies such as Microsoft that embrace collective impact 'will both advance social progress and find economic opportunities that their competitors miss'.[2]

Barclays Africa Group is another example of a company that has embraced the shared-value philosophy and embedded it in their operations. Through its Shared Growth Strategy, Barclays Africa is specifically focusing on three areas: spending more than US$100 million on education and skills development targeting youth, bolstering access to affordable finance for small and medium enterprises by raising US$100 million through corporate supply and distribution chains, and enhancing financial inclusion across the continent through both digital and non-digital access to underserved communities through real banking and value-add products (Barclays 2016). The Barclays and Microsoft initiatives show that firms are able to bring critical assets to efforts aimed at collective impact. Moreover, as Kramer and Pfitzer (2016) maintain:

> *they know how to define and achieve objectives within a limited time and budget, and through corporate pragmatism, accountability, and data-driven decision making are able to cut through the red tape and ideological disagreements that often stymie governments and NGOs.*

Perhaps the most widely accepted idea behind development through the private sector is that of 'impact investing'. Coined by the Rockefeller Foundation in 2007, the term refers to 'investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return' (GIIN 2017). In other words, impact investing goes beyond just pursuing the bottom line. It factors in the larger social and environmental challenges with which many countries, including those in Africa, continue to struggle, with the aim of achieving sustainable development and a lasting impact that is good for the people, the environment and future markets.

Impact investing has grown steadily over the last few years. In a survey conducted in 2016 by the Global Impact Investing Network, 156 investors across the globe had more than US$77 billion in impact assets. In 2015 alone, a total of US$15 billion was invested (GIIN 2016), with that figure expected to increase by 16 per cent in 2016 (Monteiro 2016). Africa has become a favourite of impact investment funds. In 2014, the SSA region absorbed 15 per cent of the total allocation from impact investors. That figure jumped to 19 per cent in 2015 and is expected to keep growing (Monteiro 2016).

The continent attracts impact investors from various sources, including institutional investors, fund managers, private equity managers and Development Finance Institutions (DFIs) such as the International Finance Corporation (IFC), the United States Agency for International Development (USAID) and the African Development Bank (AfDB). Globally, fund managers make up the largest category of impact investors. However, DFIs accounted for more than 85 per cent of impact capital in sub-regions such as East Africa (GIIN 2015).

Investors have injected up to US$7.3 billion toward impact investment projects in East, Southern and West Africa in the last decade (GIIN 2016). Southern Africa attracted the largest investments in terms of capital,

IMPACT INVESTING, WHILE STILL IN ITS INFANCY, IS CONTRIBUTING SIGNIFICANTLY TOWARD AFRICA'S DEVELOPMENT THROUGH KEY PROJECTS.

accounting for US$5.6 billion. It was followed by East Africa at US$1.4 billion, and West Africa received a mere US$221 million (GIIN 2015).

Impact investing, while still in its infancy, is contributing significantly toward Africa's development through key projects. The targeted sectors vary, ranging from education and agriculture to energy and infrastructure development. The somewhat unique nature of impact investing, focused as it is not just on financial returns but also on having social and environmental benefits, positions it uniquely as an incentivised model to drive development in Africa.

Examples of impact investment in selected sectors

Microfinance

Microfinance is one of the biggest areas of focus for impact investors. As the largest receiver of impact investment, microfinance institutions (MFIs) and funds receive close to 40 per cent of impact investments worldwide (GIIN 2015). These institutions are often regarded as engines for financial inclusion in Africa, enabling some of the most impoverished people to start small businesses, up-skilling their business and financial literacy.

The Participatory Microfinance Group for Africa (PAMIGA) is one of the most successful initiatives on the continent. It has developed up to 14 locally owned African microfinance institutions since its inception in 2005 (PAMIGA 2017). With a savings portfolio of €55 million, PAMIGA has reached more than a million clients (PAMIGA 2017), thereby becoming a key player in some of the most financially marginalised communities in Africa.

MFIs have gained substantial traction in the last 40 years. It all began in the 1970s when Muhammad Yunus launched a research project, which would lead to the establishment of the Grameen Bank in Bangladesh, to provide small loans to businesses run by poor, rural women (Grameen Research n.d.). While the success of MFIs in certain parts of Africa is well-documented, including studies conducted on the Amhara Credit and Savings Institution (ACSI) in Ethiopia (Geleta 2009) and field experiments in Kenya (Dupas & Robinson 2013), these institutions have also come under fierce criticism in the last decade. Many of them have charged excessively high interest rates, over-lent and employed coercive collection tactics. They are often seen as ruthless, seeking hyper-profits while dragging the poor into deeper debt

(Economist 2016). Moreover, recent studies on micro-credit, including randomised controlled trials in Ethiopia, India, Bosnia, Mexico, Morocco and Mongolia found that MFIs are not as economically transformative as they are often espoused to be (Banerjee, Karlan & Zinman 2015).

Education

Access to quality education remains one of the toughest challenges on the continent. Education is critical to creating a productive and inclusive society. According to UNESCO (2014), each year of education increases an individual's earnings by as much as 10 per cent. While progress has been made in increasing access to education over the last few decades, major gaps remain. As of 2013, there were still 30 million children of primary school age not attending school, while Africa had the lowest secondary school enrolment rate in the world, at 29 per cent (Watkins 2013). In comparison to their counterparts in the OECD countries, youth in SSA are less than half as likely to receive secondary education (Dalberg 2015). Recognising the critical need to educate African populations, impact investors are intervening in Africa's education systems in order to close the gaps quicker. Dalberg (2015) estimates that between 2012 and 2015 the number of transactions relating to education involving private investors in SSA increased from 20 to 50, climbing in value from US$106 million to US$583 million. Prominent investors in this sector include names such as the IFC and Spark Capital. Bridge International Academies, private schools founded in Kenya in 2009, are an example of education organisations attracting significant impact investment. Based on a low-cost model, charging just US$6 a month per pupil, the schools reach more than 100 000 students.[3] Bridge International attracts large investors such as the Pan African Investment Company, Learn Capital and Omidyar Network, which are helping to transform pre-primary and primary education in SSA.

Agriculture

The private sector's role in Africa's development is most evident in agriculture, still the largest source of employment on the continent. The importance of agriculture in Africa cannot be overstated. According to the World Bank (2016), agriculture accounts for 65 per cent of the continent's labour force. The sector is the core of the African economy and is a fundamental part of day-to-day life across the continent; it contributes 35 per cent to Africa's GDP and is said to offer the best potential for job creation and poverty reduction (Mayaki 2016). While the public sector continues to dominate the agricultural industry, the private sector is playing an increasingly active role through large investments and private equity deals, in produce ranging from coffee to cut flowers in East Africa, and from sugar to cocoa in West Africa.

Despite the obvious significance of agriculture to the continent's economies, productivity and value addition remain low. This is partly due to insufficient investment and poor land management (UNESCO 2016). Soil erosion, for example, is the main cause of declining agricultural production in southern Africa due to degraded land (UNESCO 2016). Meanwhile, most raw materials are not processed, also resulting in lower revenues and little value addition.

A number of private sector companies are beginning to take the lead in adding value to agricultural products in an effort to change Africa's economic fortunes. Good African Coffee in Uganda, while not an example of impact investing, is playing a vital role in transforming the coffee industry in the small East African nation. African coffee beans have traditionally not been processed before being exported. Green beans from Africa are exported to other parts of the world like Europe and the United States for a fraction of the value at which they are sold to consumers or roasters (Ojambo 2014). African coffee producers such as Uganda and Ethiopia are merely cultivators of beans. Consequently, they see very little of the total value of the massive global coffee business. In an industry that is worth more than US$100 billion, some of the largest producer countries such as Brazil, Vietnam and Uganda, collectively, retain no more than US$20–25 billion of the total (Goldschein 2011). The biggest benefactors are not the producers of the best beans, but rather those countries that have the capacity to process, market and sell coffee to consumers. Good African Coffee is reversing this trend, stepping in where the Ugandan government has failed to turn around the misfortunes of its coffee endowment. It is the first Ugandan company to cultivate, produce and process coffee for consumer markets. It was also the first African company to export processed and packaged coffee directly to the United Kingdom (UK). The company's coffee has been sold on the shelves of major UK supermarkets including Waitrose, Sainsbury's and Tesco PLC (Kalinaki 2011).

The cut-flower industries in Ethiopia and Kenya are further examples of the private sector's increasingly pivotal role in advancing development through agriculture. The private sector is driving economic diversity from traditional exports such as tea and coffee to higher revenue and employment generators like flowers. Kenya's floriculture industry dates back to the 1980s (Economist 2008). Following years of painfully slow growth, the country is now the third-largest exporter of flowers in the world (Veselinovic 2015). The contribution of cut flowers to the Kenyan economy is significant. Close to half a million people depend on this sector, which brought in nearly US$600 million in 2014, making it one Kenya's largest foreign exchange earners (Veselinovic 2015). Kenya's biggest market is the Netherlands, which imports more than 65 per cent of its flowers for distribution around Europe.[4] This sector has attracted some of Kenya's largest investors, such as the UK-based Swire Group and the Dutch company, Zuurbier & Co.

Ethiopia's floriculture industry, while much newer than Kenya's, has grown impressively over the past decade and is currently among the top five global suppliers and second only to Kenya in African production and exports (Business Week 2015). Revenues exceeded US$220 million in the 2015/16 fiscal year and experts insist that Ethiopia's export capacity will surpass Kenya's in less than ten years. Since 2011, more than 100 000 new jobs have been created in this sector in Ethiopia, 75 per cent of which are occupied by women (ITC 2015). A large majority of Ethiopia's cut-flower companies are either entirely foreign-owned or joint ventures between local and foreign companies. In 2014, in a sign of growing investor interest, KKR, an American private equity firm, bought a US$200 million stake in the Ethiopia-based Afriflora, one of the biggest producers of roses in the world (Clark 2014).

Power generation

Another area in which the private sector is playing a critical role in Africa is power generation. It is a well-known fact that Africa's growth is constrained by massive power deficits. Of the 1.3 billion people worldwide who lack electricity, 600 million are in SSA, which is more than half the population of the continent (Lindeman 2015). Only in Côte d'Ivoire, Namibia, South Africa, Cameroon, Gabon, Ghana and Senegal do more than 50 per cent of citizens have access to electricity (Castellano et al. 2015), and Africa's power needs are expected to increase dramatically. By 2030, demand will be more than double current electricity production (Tralac 2016). To meet the development requirements for power, SSA needs around US$40.8 billion per year, which is far beyond current funding available.

With Africa's power sector needs far exceeding most countries' capacity, the private sector has stepped in to address the current power shortfalls to ensure that economies can continue to tick over. This has been mostly in the form of independent power projects (IPPs). There are an estimated 125 IPPs across SSA, with an installed capacity of 11 GW, and investments of up to US$24.6 billion (World Bank 2016). However, most of these (67 IPPs, to be precise) are in South Africa (Tralac 2016). Governments across the continent need to create better investment and enabling environments in order to attract more IPPs.

Power Africa, an initiative launched by President Barack Obama in 2013, represents one of the largest private sector commitments to help deliver access to electricity in SSA. The initiative brings together multiple companies, financial institutions and political leaders with the aim of adding more than 30 000 MW of electricity to Africa (USAID n.d.). 'Beyond the Grid', one of Power Africa's sub-initiatives geared toward increasing off-grid access to electricity, has already partnered with more than 40 investors such as The Rockefeller Foundation, the Beyond Capital Fund, Kiva, and the Tony Elumelu Foundation, which have committed more than US$1 billion (USAID n.d.).

Infrastructure development

According to the World Bank (2016), Africa's infrastructure funding gap amounts to US$50 billion per year. The lack of adequate and well-maintained infrastructure is a major impediment to meeting the continent's development objectives. Africa's infrastructure bottlenecks are estimated to cut the continent's growth by as much as 2 per cent per year (Kaberuka 2014). In total, an estimated US$93 billion per year is needed for both maintenance and the provision of new infrastructure (Olobo 2016).

African governments are able to meet two-thirds of this amount, while multilateral and bilateral donors contribute another 8 per cent (Olobo 2016). The rest must come from the private sector, a growing reality as donors and governments are increasingly unable to meet funding requirements. While governments are ultimately responsible for providing adequate infrastructure for their citizens, many countries in SSA lack the capacity and capital to address infrastructure backlogs. The private sector, on the other hand, has demonstrated its ability to supply new and innovative financing, technology and designs to help address Africa's inadequate infrastructure.

Private equity (PE) funds have become an important source for bolstering infrastructure on the continent. In 2014, PE deals in Africa reached US$8.1 billion (Ernst & Young 2015). While that number has fallen over the last two years, the impact of PE funds on developing Africa's infrastructure has been significant. Leading American funds such as Blackstone partnered with Africa's richest man, Aliko Dangote, in 2014 to help boost infrastructure across SSA through a US$5 billion pan-African deal (Wallace 2015). In the very same year, the Dubai-based Abraaj Group raised US$900 million for its Africa fund (Saadi 2015). This fund focuses on high-demand sectors such as consumer goods and infrastructure services.

AFRICA'S INFRASTRUCTURE BOTTLENECKS ARE ESTIMATED TO CUT THE CONTINENT'S GROWTH BY AS MUCH AS 2 PER CENT PER YEAR.

Conclusion

The private sector has emerged as a primary driver of development across the African continent. The magnitude of Africa's development challenges cannot be addressed singlehandedly by governments, even with the help of international donors. Tackling yawning inequality, high unemployment rates, poor infrastructure and inadequate education and healthcare, to name a few, requires significant resources, skills and expertise. Moreover, the private sector has woken up to the fact that pursuing profits can go hand in hand with social and environmental development.

The private sector's contribution to Africa's development thus far, in the form of either impact investments or shared-value initiatives, illustrates the vast amount of resources, knowledge and skills that it possesses – not to mention the levels of efficiency and effective implementation of which it is capable.

However, governments need to partner with the private sector, and not only in the area of service delivery. They need to play a part in creating an environment that is conducive to business and that entices investment. SSA is notorious as a business environment that is not always attractive to investors. Institutional barriers such as red tape, socio-political instability and corruption stand in the way of private sector growth and operations in Africa, more so than anywhere else. Along with policy inconsistency and a culture of rent seeking, the investment climate in Africa can be toxic and unhelpful, driving away investors and businesses.

Africa's development challenges remain daunting but not insurmountable. The private sector's investments in areas such as education, microfinance, agriculture and infrastructure demonstrate what is possible when all stakeholders pool their resources together for a common goal and a mutually agreed (and measured) outcome. As Africa looks to meet the SDGs over the next 14 years, the private sector will play a key role in addressing the continent's challenges and in meeting crucial targets.

ENDNOTES

1 In 2015, countries adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved by 2030 (see http://www.un.org/sustainabledevelopment/sustainable-development-goals/).

2 Collective impact 'is based on the idea that social problems arise from and persist because of a complex combination of actions and omissions by players in all sectors – and therefore can be solved only by the coordinated efforts of those players, from businesses to government agencies, charitable organisations, and members of affected populations' (Kramer & Pfitzer 2016).

3 See http://www.bridgeinternationalacademies.com/.

4 See http://www.kenyarep-jp.com/business/industry/f_market_e.html.

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